U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

March 29, 2007

FINANCIAL SERVICES COMMITTEE TO ADDRESS PREDATORY MORTGAGE LENDING PROBLEMS

Dear Colleague:

As you know, there are serious problems in the country's mortgage lending market. Foreclosure rates are rising, housing prices are stagnating and too many consumers are surprised to find out that their monthly payments are spiking. The difficulties have been concentrated in "subprime" loans, which generally go to borrowers with limited or damaged credit, although there is evidence that some borrowers are shifted into the subprime category because they are African-American or Hispanic. Real damage has been done to families and communities as many adjustable-rate mortgage loans "reset" to higher interest rates and monthly payments.

The House Financial Services Committee is holding a series of hearings on the topic designed to determine: (1) the scope of the problem and its implications for homeowners and the economy; (2) the causes of the problem, (3) what regulators, industry and community organizations are doing about it; and (4) what additional steps regulators and Congress can take to improve the situation and ensure that we do not end up here again. We will also be addressing the discrimination aspect of these activities.

Some responses do not require legislation and are already underway: working cooperatively with the Committee, Federal and state banking regulators have issued new guidelines to improve loan underwriting and consumer disclosures for risky loan products, and Members of the Committee have urged federal regulators to provide clear authority to financial institutions so that they can voluntarily avert foreclosures.

A number of states have passed strong anti-predatory lending legislation over the last few years, and this has helped reduce abuses that put homeowners at risk. However, a number of states do not have such laws, and some parts of the state laws have been preempted by Federal regulators. Recent Republican-led Congresses failed to address this. The Financial Services Committee now plans to act on this issue, including legislation later this session.

Our legislation will be drafted with several key principles in mind:

- ***All Americans should be protected against predatory lenders.*** We will put the best ideas and protections to work for every mortgage borrower, regardless of where they live or what institution they borrow from.

- ***Consumers should get "good credit."*** The best thing we can do for consumers currently in bad loans – and for future borrowers – is ensure that they can get good loans. The promise of homeownership is empty if the result is foreclosure or equity being stripped from borrowers who are sold loans they cannot pay for.

- ***Credit availability must be preserved, especially in a troubled market***. We will take a measured approach that cracks down on abusive lending but preserves a robust system that boosts sustainable homeownership.

- ***Lenders should not make loans that they know the consumer cannot pay back or that exceed the value of the home.*** This seems simple – why would lenders ever make such loans? Unfortunately a number have, and consumers and communities bear the results. We will implement standards that help ensure lender and consumer interests are aligned, and that result in good loans and financially healthy borrowers.

- ***Consumers should get a simple, understandable, and meaningful disclosure of their loans' terms.*** Mortgage originators should provide clear and understandable disclosures of all key terms to all borrowers. Too many crucial facts are currently buried in legalese or cloudy verbal descriptions, and some consumers cannot tell for certain what they are signing up for.

- ***Mortgage originators should not have incentives to steer consumers into bad loans.*** Borrowers should be assured that they receive a loan at the best terms they qualify for – financial and other incentives for those who originate mortgages should serve that goal.

- ***We cannot return to redlining.*** We will remember that before predatory lending provided too much bad credit, many communities had little access to credit at all. We must end discriminatory lending practices.

The Committee is intently focused on these issues and is working toward a balanced solution that stops abuses, preserves access to credit, and aids stable homeownership. I welcome your thoughts as we move forward in this process, and look forward to answering any questions you have.

If you would like to monitor our activity on these issues, after the April District Work Period we will have additional information available in a "Predatory Lending" section of the Committee's website.

BARNEY FRANK
Chairman